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C O N F I D E N T I A L SECTION 01 OF 02 GUATEMALA 000771

SIPDIS

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TAGS: PREL MOPS MARR GT

SUBJECT: GOG ACCORD ON DEEP MILITARY REDUCTIONS

REF: GUATEMALA 584

Classified By: Acting PolChief Erik Hall for reason 1.5 (b) and (d).

¶1. (C) Summary: President Oscar Berger told the Ambassador on March 27 that he had achieved a "political understanding" with his Minister of Defense to reduce military strength to 15,500 officers and men, and to sharply reduce the military budget to .33 % of GDP (down from the Peace Accords limit of .66% of GDP). Some details of the deal, to be announced April 1, are still being worked out. At Berger's request the Ambassador publicly supported the idea of reductions at the inauguration of the New Horizons joint humanitarian military exercise on March 27. We are tailoring an April 19-20 Seminar to help facilitate implementation. Berger's April 30 meeting with the President will provide a good opportunity to give political support from the highest level. We also need to be prepared to provide more concrete support, within existing restrictions under U.S. law. End Summary.

GOG Moved Quickly Toward Accord

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¶2. (C) Following up on the GOG's request for US assistance with developing a plan to shrink the military (reftel), the Ambassador, MilGroup Commander, visiting Center for Civil Military Relations (CCMR) Director Tom Bruneau and CCMR Senior Fellow MG (Ret.) Goetze met with President Berger, Vice President Stein, Foreign Minister Briz and Presidential Private Secretary Vila on March 24. The purpose of the meeting was get Berger's thinking as to how a planned April 19-20 seminar on military reform could best be tailored to support his initiatives. By way of bringing us up to date, Berger said he had asked the military to live within a 500 million quetzal budget (\$62.5 million, versus \$155 million spent in 2003). The Defense Minister had resisted, however, and threatened to resign. Berger said he had then requested the assistance of an unnamed friend (and retired General), who had produced a study calling for troop strength of 14,869 soldiers, closure of eight major bases, and a budget limited to .33% of GDP, or roughly 3% of current government revenue.

¶3. (C) The Berger-ordered study also called for cuts in administrative expenses of 20-25%, budget transparency, and investigation of past corruption in the Military Pension Institute (IPM), which Berger believes (with reason) previous military leaders have ransacked. Cutting off funding for the IPM and paying retired military salaries would cost 100 million quetzals annually, according to Finance Ministry estimates. To prevent further corruption, Berger said he would also rescind the Army's contracting authority and oversee contracts through the Controller General's Office. Asked what roles a reduced Army should have as priorities, Berger cited peacekeeping, border patrol, counter-narcotics support, and supporting the civilian police fighting crime (for two years, until reforms to the police force and strengthening of civilian intelligence is complete). The goal is to achieve a smaller Army which is well-trained and equipped, and more effective.

Army Counter-Offer

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¶4. (C) In the March 24 meetings, Berger further described military resistance to his plans and requested USG political support. Presidential Security Commissioner (and retired General) Otto Perez Molina might resign over the final budget figures, he said. Finance Minister Bonilla's efforts to work out the technical details of a budget reduction had met with stonewalling from the Army. Berger had therefore turned to Presidential Commissioner for Finance Richard Aitkenhead to develop a workable plan for reductions in consultation with the Army. In a separate March 24 meeting, which took place at Berger's request, Aitkenhead shared with us the Army's response to Berger's demands. It provided for a total troop strength of 16,000 (from current levels of 27,209) and a budget totaling 871.8 million quetzals (\$108 million). Aitkenhead thus expressed confidence that the differences between the two plans could be overcome.

Accord Reached March 26

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¶5. (C) On March 27, at the New Horizons public launch, Berger told the Ambassador that he (and Aitkenhead) had in fact reached an accord with the Defense Minister during a

three-hour meeting the day before (the Minister of Defense confirmed the agreement to the MilGroup Commander). At Berger's request, the Ambassador supported the need for downsizing cum modernization in his public remarks at the New Horizons inaugural ceremony. The accord, which will be made public April 1, includes the following elements:

- troop strength reduction to 15,500 by June 30
- a 2004 budget ceiling of 700 million quetzals (approx. \$87.5 million)
- 2005 budget ceiling of .33% of GDP

(Note: According to Aitkenhead's figures, military spending in 2003 amounted to .64 of GDP. However, .33% of projected 2004 GDP totals approximately \$108 million. It is unclear to us if Berger intends the military budget to increase in 2005 to this extent. The increase may be intended to cover needed equipment modernization, after reductions are complete. End Note.)

Next Steps; How We Are Helping, Could Help Further

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16. (C) In light of these developments, the CCMR seminar of April 19-20 will shift its focus slightly to help facilitate development of an action plan to implement the political understanding. With respect to officer demobilization, Aitkenhead said the older ones are no problem, as they are ready to get out with a financial bonus. Aitkenhead wants help on retraining/re-education of younger officers who will have to leave; he had no specific request regarding middle-ranked officers, who are the biggest problem due to their numbers and years of service. Aitkenhead also requested support for equipment modernization, to the degree that we are able given Congressional restrictions. We expect VP Stein, in an upcoming (mid-April) visit to Washington, will have specific requests. One of the most important ways we could support this initiative would be a public statement by President Bush during Berger's April 30 visit.

17. (C) Comment: Downsizing the Guatemalan military has been a long-term USG interest. The evolution of this presidential initiative has been remarkably swift and the accord with the military is a tribute to Berger's determination and pragmatism. Though Berger overcame predictable resistance from the MOD and his top staff, he may yet face opposition from within the officer corps. For example, both the MOD and his Chief of Staff thanked the Ambassador for his March 27 remarks, noting that "the Commanders need to hear what you said." U.S. political support for Berger's gutsy gambit will continue to be crucial, as will be any other incentives we can offer to support modernization as downsizing is completed.  
HAMILTON